

the administrative costs of imposing it.⁴⁹ The question is precisely how much further, and in what directions, a state-building concern leads.

Some seem to attach importance to having as many people as possible to remit tax: OECD (2008), for instance, argues that “the challenge for poor countries is...to tax a larger number of citizens and enterprises more consensually.” This presumably should not be taken too literally, although the account of poll tax riots in Tanzania and Uganda in Fjeldstad and Therkildsen (2008) reminds us that the best way to encourage the exercise of voice in tax matters is by taxing badly. Moore (2008), on the other hand, takes a less extreme view, arguing that all can benefit from greater accountability and responsiveness when only a subset of citizens directly remit tax. Certainly there seems little hope of encouraging improved compliance by smaller taxpayers if larger ones are manifestly escaping tax, legally or otherwise. Another vein in the state-building literature stresses formalization rather than the simple remittance of tax:⁵⁰ “the goal of MSE taxation should be broadened beyond simple cost-recovery to include the benefits of having more formalized firms in the economy” (Everest-Phillips, 2008, p. 6). This also seems to be recognized in established advice (as for instance in ITD, 2007)—or at least in standard aspiration, since this is hard to do. The point, perhaps, is to understand better the various external benefits—beyond standard production efficiency—associated with regularization, and the role of taxation in fostering it. The possibility of low-level compliance traps, for instance—no one complies because no one else does—is widely recognized (Cowell, 1990). But the theory then also tells us that bringing taxpayers into compliance one-by-one may be doomed to failure: some form of “big push” may be needed. Some also argue, for instance, that keeping proper records for tax purposes facilitates access to credit markets; but, if so, why don’t enterprises do it without any need for intervention—such as the design and provision of accounting software—by the tax administration? There is abundant evidence too that that transactions and informational costs are at least as substantial a deterrent to regularization as taxation. What may be needed is not so much clever tax redesign as a greater emphasis on taxpayer education.

There are other important and wider questions raised by the state-building literature. One is a recognition that foreign aid may have some of the same debilitating effects on tax development as do resource rents, in which case the issue is whether aid conditionality can be configured to mitigate these effects, for instance, by some degree of matching to domestic efforts (an obvious difficulty then being the Samaritan’s dilemma of finding some way to credibly commit to limit

⁴⁹ In the model in Keen (2008), for instance, it is straightforward to show that a small tax on the sales of operators that are for some reason excluded from tax (legally or otherwise) is welfare-improving, even if the direct revenue gain is seen as offset by the welfare loss to the those operators themselves, so long as the additional VAT paid by an expanded taxed sector more than covers the extra administration costs involved.

⁵⁰ Illustrating the differences even within the state-building literature, OECD (2008, p. 25) takes the more hesitant view—presumably reflecting awareness of the difficulty of doing so—that, “Finding equitable and efficient ways of taxing the informal sector is not entirely to be excluded...”

support if targets are not met). Another is the nature of tax structures that lend themselves to the most constructive bargaining. For example, high visibility (such as with explicit listing of the tax content in retail purchases) and remittance (the literal payment of tax) presumably both have some significance. Similarly, the perceived fairness and distortionary costs associated with any tax are critical—with this factor again pointing to the awkward and presumably repugnant conclusion that it is unfair and inefficient taxes that are particularly likely to prompt citizens to call governments to account and limit any tendency toward inefficiently rapid growth.

Whether this newer literature on state building will bring substantively new insights, or lead to substantially improved practical advice, thus remains open to question. All to the good, however, is that the emergence of the “new fiscal sociology” has widened the perspectives and skills brought to the debate. Not the least of the merits of the state-building literature, however, is to emphasize the sustained, long-term nature of the effort needed to develop effective tax systems, while at the same time not simply implying, as some of the recent literature tends to do, that nothing can be done until effective institutions have, somehow, been developed. This literature not only offers no quick fixes, but can be in itself a reminder that, as the history of big ideas above suggests, there are no quick fixes.

VI. CONCLUSIONS

The renewed interest in resource mobilization by developing countries is cause for optimism. Potentially the most fundamental and lasting consequence may be the increased use of micro data—with several notable examples in this volume—to take understanding beyond the professional hunches of practitioners, often driven by the serendipity of their own experiences and idiosyncrasies of their interests. Such work has fundamentally improved the quality of tax analysis in advanced economies, and, as more and better data become available (not least from tax administrations themselves), has tremendous potential for developing countries. Certainly there is a wide range of critical technical issues hardly touched on here (but taken up, for instance, in IMF (2011)), on which substantial progress hinges and on which firm evidence, and careful reasoning, remains in short supply.

The point stressed here, however, is simply that the practical advice which emerges from analysis and practical experience needs, if it is to be genuinely effective: to be ambitious for near-term gain but distrustful of fads; to recognize that progress is both contingent on, and can be a key factor in, long-term state development; and to be aware that fundamental strengthening of revenue collection will be largely a matter of persistent and unspectacular effort.

References

- Acemoglu, Daron, 2005, “Politics and Economics in Weak and Strong States,” *Journal of Monetary Economics*, Vol. 52 (October), pp. 1199–226.
- Acemoglu, Daron, Simon Johnson, and James A. Robinson, 2001, “The Colonial Origins of Comparative Development: An Empirical Investigation,” *American Economic Review*, Vol. 91, No. 5 (December), pp. 1369–401.
- African Development Bank, and Organisation for Economic Co-operation and Development, 2010, “Public Resource Mobilisation and Aid in Africa,” in *African Economic Outlook 2010* (Paris: African Development Bank), pp. 79–122.
- Aizenman, Joshua, and Yothin Jinjarak, 2008, “The Collection Efficiency of the Value Added Tax: Theory and International Evidence,” *Journal of International Trade and Economic Development*, Vol. 17 (July), pp. 391–410.
- Alm, James, Jorge Martinez-Vazquez, and Sally Wallace, eds., 2004, *Taxing the Hard-to-Tax: Lessons from Theory and Practice*, (Amsterdam: Elsevier).
- Auriol, Emmanuelle, and Michael Warlters, 2005, “Taxation Base in Developing Countries,” *Journal of Public Economics*, Vol. 89 (April), pp. 625–46.
- Baer, Katherine, Olivier Benon, and Juan Toro, 2002, *Improving Large Taxpayers’ Compliance: A Review of Country Experience*, IMF Occasional Paper No. 215 (Washington: International Monetary Fund).
- Besley, Timothy, and Torsten Persson, 2009, “The Origins of State Capacity: Property Rights, Taxation, and Politics,” *American Economic Review*, Vol. 99 (September), pp. 1218–44.
- _____, 2010, “Pillars of Prosperity: Peace, Easy Taxes and the Rule of Law,” Manuscript (London: London School of Economics).
- Bird, Richard, 1997, “Analysis of Earmarked Taxes,” *Tax Notes International*, Vol. 14, pp. 2095–116.
- _____, 2008, “Tax Challenges Facing Developing Countries,” (unpublished; New Delhi: National Institute of Public Finance and Policy).
- Bird, Richard, and Pierre-Pascal Gendron, 2007, *The VAT in Developing and Transitional Countries* (Cambridge: Cambridge University Press).
- Bodin, Jean-Paul, and Vincent Koukpaizan, 2008, “Taxation of Small Enterprises: Recent Developments,” *International VAT Monitor*, Vol. 19 (March), pp. 121–31.

- Bräutigam, Deborah A., 2008, "Introduction: Taxation and State Building in Developing Countries," in *Taxation and State Building in Developing Countries: Capacity and Consent*, ed. by Deborah Bräutigam, Odd-Helge Fjelstad, and Mick Moore, pp. 1–33 (Cambridge: Cambridge University Press).
- Brett, Craig, and Michael Keen, 2000, "Political Uncertainty and the Earmarking of Environmental Taxes," *Journal of Public Economics*, Vol. 75 (March), pp. 315–40.
- Carter, Michael, 2004, "Landownership Inequality and the Income Distribution Consequences of Economic Growth," in *Inequality, Growth, and Poverty in an Era of Liberalization and Globalization*, ed. by Giovanni Andrea Cornea (Oxford: Oxford University Press), pp. 57–80.
- Casanegra de Jantscher, Milka, 1990, "Administering the VAT," in *Value Added Taxation in Developing Countries*, ed. by Malcolm Gillis, Carl S. Shoup and Gerardo P. Sicat (Washington: World Bank).
- Chambas, Gérard, 2005, *Afrique au sud du Sahara: Mobiliser des Ressources Fiscales Pour Le Développement* (Paris: Economica).
- Collier, Paul, 2010, "Principles of Resource Taxation for Low-Income Countries," in *The Taxation of Petroleum and Minerals: Principles, Problems and Practice*, by Philip Daniel, Michael Keen, and Charles McPherson (Abingdon: Routledge), pp. 75–86.
- Cowell, Frank A., 1990, *Cheating the Government: The Economics of Evasion* (Cambridge: MIT Press).
- Daniel, Philip, Michael Keen, and Charles McPherson, 2010, *The Taxation of Petroleum and Minerals: Principles, Problems and Practice* (Abingdon: Routledge).
- de Paula, Aureo and José A. Scheinkman, 2007, "The Informal Sector," Mimeo (Princeton, NJ: Princeton University Press).
- Ebrill, Liam, Michael Keen, Jean-Paul Bodin, and Victoria Summers, 2001, *The Modern VAT* (Washington: International Monetary Fund).
- ECORYS, 2010, "Taxation in Africa," (Netherlands).
- Emran, Shahe, and Joseph Stiglitz, 2005, "On Selective Indirect Tax Reform in Developing Countries," *Journal of Public Economics*, Vol. 89 (April), pp. 599–623.
- Erard, Brian, and Chih-Chin Ho, 2001, "Searching for Ghosts: Who are the Nonfilers and How Much Tax Do They Owe?" *Journal of Public Economics*, Vol. 81 (July), pp. 25–50.

- _____, 2004, "Mapping the U.S. Tax Compliance Continuum," in *Taxing the Hard-to-Tax: Lessons from Theory and Practice*, ed. by James Alm, Jorge Martinez Vazquez, and Sally Wallace (Amsterdam: Elsevier B.V.), pp. 167–86.
- European Commission, 2010, *Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee: Tax and Development: Cooperating with Developing Countries on Promoting Good Governance in Tax Matters* (Brussels).
- Everest-Phillips, Max, 2008, "Business Taxation as State Building in Developing Countries: Applying Governance Principles in Private Sector Development," *International Journal of Regulation and Governance*, Vol. 8(2), pp. 123–54 (United Kingdom: Department for International Development).
- Fjelstad, Odd-Helge, and Ole Therkildsen, 2008, "Mass Taxation and State-Society Relations in East Africa," in *Taxation and State Building in Developing Countries: Capacity and Consent*, ed. by Deborah Bräutigam, Odd-Helge Fjelstad, and Mick Moore, (Cambridge: Cambridge University Press), pp. 114–34.
- Fuest, Clemens, Giorgia Maffini, and Nadine Riedel, 2012, "Do Corruption and Taxation Affect Corporate Investment in Developing Countries?" forthcoming in Clemens Fuest and George Zodrow (eds.), *Studies of Critical Issues in Taxation and Development* (Boston: MIT Press).
- Fuest, Clemens, Shafik Hebouz, and Nadine Riedel, 2012, "International Profit Shifting and Multinational Firms in Developing Countries," forthcoming in Clemens Fuest and George Zodrow (eds.), *Studies of Critical Issues in Taxation and Development* (Boston: MIT Press).
- Gauthier, Bernard, and Mark Gersovitz, 1997, "Revenue Erosion Through Exemption and Evasion in Cameroon, 1993," *Journal of Public Economics*, Vol. 64 (June), pp. 407–24.
- Gauthier, Bernard, and Ritva Reinikka, 2001, "Shifting Tax Burdens Through Exemptions and Evasion: An Empirical Investigation of Uganda," Policy Research Working Paper No. 2735 (Washington, World Bank).
- Goode, Richard, 1993, "Tax Advice to Developing Countries: An Historical Survey." *World Development*, Vol. 21 (January), pp. 37–53.
- Goyette, Jonathan, 2012, "Optimal VAT Threshold: Official vs. Effective Enforcement," Mimeo (Canada: University of Sherbrooke).

- Gordon, Roger H. ed., 2010, *Taxation in Developing Countries: Six Case Studies and Policy Implications* (New York: Columbia University Press).
- Hindriks, Jean, Michael Keen, and Abhinay Muthoo, 1999, "Corruption, Extortion and Evasion," *Journal of Public Economics*, Vol., 74 (December), pp. 395–430.
- Institute for Fiscal Studies, 1994, "Options for 1994: The Green Budget," IFS Commentary C046 by Gavyn Davies, Andrew Dilnot, Christopher Giles, and David Walton (London: Institute for Fiscal Studies).
- International Monetary Fund, 2011, "Revenue Mobilization in Developing Countries," (Washington: International Monetary Fund). Available via the Internet: www.imf.org/external/np/pp/eng/2011/030811.pdf.
- International Tax Dialogue, 2007, "Taxation of Small and Medium Enterprises: Background Paper for the International Tax Dialogue Conference," Buenos Aires, October. Available via the Internet: www.itdweb.org/documents/itd%20global%20conference%20%20background%20paper.pdf.
- Jenkins, Glenn P., Hatice Jenkins, and Chun-Yan Kuo, 2006, "Is the Value Added Tax Naturally Progressive?" Queens Economics Department Working Paper No. 1059 (Kingston: Queen's University).
- Joshi, Anuradha, and Joseph Aye, 2008, "Associational Taxation: A Pathway into the Informal Sector?" in *Taxation and State Building in Developing Countries: Capacity and Consent*, ed. by Deborah Bräutigam, Odd-Helge Fjelstad, and Mick Moore (Cambridge: Cambridge University Press), pp. 183–211.
- Kaizuka, Keimei, 1992, "The Shoup Tax System and the Postwar Development of the Japanese Economy," *American Economic Review*, Vol. 82 (May), pp. 221–25.
- Kanbur, Ravi, 2009, "Conceptualising Informality: Regulation and Enforcement," Working Paper 2009–11, Department of Applied Economics and Management (New York: Cornell University).
- Kasara, Kimuli, 2007, "Tax Me If You Can: Ethnic Geography, Democracy, and the Taxation of Agriculture in Africa," *American Political Science Review*, Vol. 101 (February), pp. 159–72.
- Keen, Michael, 2008, "VAT, Tariffs, and Withholding: Border Taxes and Informality in Developing Countries," *Journal of Public Economics*, Vol. 92 (October), pp. 1892–906.

- _____, 2009, “What Do (and Don’t) We Know About the Value-Added Tax? A Review of Richard M. Bird and Pierre-Pascal Gendron’s *The VAT in Developing and Transitional Countries*,” *Journal of Economic Literature*, Vol. 47 (March), pp. 155–70.
- Keen, Michael, and Ben Lockwood, 2010, “The Value Added Tax: Its Causes and Consequences,” *Journal of Development Economics*, Vol. 92 (July), pp. 138–51.
- Keen, Michael, and Mario Mansour, 2010a, “Revenue Mobilisation in Sub-Saharan Africa: Challenges from Globalisation I – Trade Reform,” *Development Policy Review*, Vol. 28 (September), pp. 553–71.
- Keen, Michael, and Mario Mansour, 2010b, “Revenue Mobilisation in Sub-Saharan Africa—Challenges from Globalisation II – Corporate Taxation,” *Development Policy Review*, Vol. 28 (September), pp. 573–96.
- Keen, Michael, and Alejandro Simone, 2004, “Tax Policy in Developing Countries: Some Lessons from the 1990s and Some Challenges Ahead,” in *Helping Countries Develop: The Role of Fiscal Policy*, ed. by Sanjeev Gupta, Benedict Clements, and Gabriela Inchauste (Washington: International Monetary Fund), pp. 302–52.
- Kidd, Maureen, and William Crandall, 2006, “Revenue Authorities: Issues and Problems in Evaluating Their Success,” IMF Working Paper 06/240 (Washington: International Monetary Fund).
- Kleven, Henrik Jacobsen, and Mazhar Waseem, 2011, “Tax Notches in Pakistan: Tax Evasion, Real Responses, and Income Shifting,” Mimeo (London: London School of Economics).
- Lessman, Christian, and Günther Markwardt, 2012, “Fiscal Federalism and Foreign Transfers,” forthcoming in Clemens Fuest and George Zodrow (eds.), *Studies of Critical Issues in Taxation and Development* (Boston: MIT Press).
- Lindbeck, Assar, and Jörgen W. Weibull, 1987, “Balanced-Budget Redistribution as the Outcome of Political Competition,” *Public Choice*, Vol. 52 (January), pp. 273–97.
- Marshall, John, 2009, “One Size Fits All? IMF Tax Policy in Sub-Saharan Africa,” Christian Aid Occasional Paper No. 2 (London: Christian Aid).
- McArthur, John, and Jeffrey Sachs, 2001, “Institutions and Geography: Comment on Acemoglu, Johnson and Robinson (2000),” NBER Working Paper No. 8114 (Cambridge: National Bureau of Economic Research).
- Moore, Mick, 2007, “How Does Taxation Affect the Quality of Governance?” IDS Working Paper 278 (Brighton: Institute of Development Studies).

- Muñoz, Sònia, and Stanley Sang-Wook Cho, 2004, “Social Impact of a Tax Reform: The Case of Ethiopia,” in *Helping Countries Develop: The Role of Fiscal Policy*, ed. by Sanjeev Gupta, Benedict Clements, and Gabriela Inchauste (Washington: International Monetary Fund), pp. 353–84.
- Organisation for Economic Co-operation and Development, 2008, “Governance, Taxation and Accountability: Issues and Practices,” Development Assistance Committee Guidelines and Reference Series (Paris: OECD).
- Pomeranz, Dina, 2011, “No Taxation without Information: Deterrence and Self-Enforcement in the Value Added Tax,” Mimeo (Cambridge: Harvard Business School).
- Rajaram, Indira, 2004, “Taxing Agriculture in a Developing Country: A Possible Approach,” in *Taxing the Hard-to-Tax: Lessons from Theory and Practice*, ed. by James Alm, Jorge Martinez-Vazquez, and Sally Wallace (Amsterdam: Elsevier), pp. 245–68.
- Skinner, Jonathan, 1991, “Prospects for Agricultural Land Taxation in Developing Countries,” in *Tax Policy in Developing Countries*, ed. by Javad Khalilzadeh-Shirazi and Anwar Shah, (Washington: World Bank), pp. 139–52.
- Stewart, Miranda, and Sunita Jogarajan, 2004, “The International Monetary Fund and Tax Reform,” *British Tax Review*, Vol. 2, pp. 146–75.
- Stiglitz, Joseph E., 2010, “Development-Oriented Tax Policy,” in *Taxation in Developing Countries: Six Case Studies and Policy Implications*, ed. by Roger H. Gordon, (New York: Columbia University Press), pp. 11–36.
- Stroebel, Johannes, and Arthur van Benthem, 2012, “Resource Extraction Contracts under Threat of Expropriation: Theory and Evidence,” forthcoming in Clemens Fuest and George Zodrow (eds.), *Studies of Critical Issues in Taxation and Development* (Boston: MIT Press).
- Thuronyi, Victor, 2003, *Comparative Tax Law* (The Hague: Kluwer Law International).
- Tybout, James R., 2000, “Manufacturing Firms in Developing Countries: How Well Do They Do, and Why?” *Journal of Economic Literature*, Vol. 38 (March), pp. 11–44.
- United Nations, 2005, *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals* (New York: United Nations Development Programme).
- Zolt, Eric M., and Richard M. Bird, 2005, “Redistribution via Taxation: The Limited Role of the Personal Income Tax in Developing Countries,” *UCLA Law Review*, Vol. 52 (August), pp. 1627–95.